20100607GGRUpdate
By Gene Arensberg *Esse quam videri* – To be rather than to seem.

Got Gold Report – Gold Outperforming Silver

But silver may be the "better" buy.

HOUSTON – In our **Got Gold Report** four weeks ago (May 9) we hauled out the caution flags because of the ominous signals then showing in the data, charts and ratios we follow closely here at GotGoldReport.com. The subtitle of that report said, ***"Rig for heavy weather and hope we don't get it."***

Two weeks ago, in the last full **Got Gold Report** (May 23) we wondered then: *…"whether we are about to enter the eye of the storm or the eye wall itself."*

Since then the world has given us all a bad taste in the mouth, a heavy dose of anxiety, precious little to be bullish about and we all have seen even less from our political "leadership" which might cause even the hint of increased confidence in them.

About the only thing we have seen enough to be bullish about is gold – because it is now so darn easy to be bearish of most all fiat currencies longer term and even more bearish of the poorly chosen elitist, vote-pandering, freedom-stealing, Big Government-loving narcissist cast and crew currently in charge in Washington.

As bad as that seems, we sense it is patently good for gold longer term, but everyone already knows what is in the news. Let's look at what some of the indicators are telling us. First, here's this week's closing table:

June 4, 2010				
Got Gold Report Indicator Comparison	This Week	Prior Week	Change	w/w Chg %
Gold Weekly Close (USD)	$1,219.83	$1,214.50	$5.33	0.4%
Silver Weekly Close (USD)	$17.43	$18.40	($0.97)	-5.3%
GLD Metal Holdings (Tonnes)	1,286.36	1,267.93	18.43	1.5%
SLV Metal Holdings (Tonnes)	9,208.83	9,258.42	(49.59)	-0.5%
Gold Close COT Date	$1,225.62	$1,204.03	$21.59	1.8%
Silver Close COT Date	$18.44	$17.95	$0.49	2.7%
Gold LCNS (Contracts Net Short)	267,623	268,379	(756)	-0.3%
Silver LCNS (Contracts Net Short)	51,955	51,449	506	1.0%
HUI EOW Close	444.46	453.64	(9.18)	-2.0%
US Dollar Index Weekly Close	88.29	86.71	1.58	1.8%
ICE Commercial Net $ Pos. (Contracts)	(21,918)	(24,736)	2,818	-11.4%
Gold:Silver Ratio Weekly Close	69.98	66.01	3.97	6.0%
Gold Intra-week High	$1,228.76	$1,218.30	$10.46	0.9%
Gold Intra-week Low	$1,197.15	$1,177.48	$19.67	1.7%
Silver Intra-week High	$18.70	$18.63	$0.07	0.4%
Silver Intra-week Low	$17.31	$17.55	($0.24)	-1.4%
Gold High/Low Spread	$31.61	$40.82	($9.21)	-22.6%
Silver High/Low Spread	$1.39	$1.08	$0.31	28.7%

Looking at the table just above we see the gold hi-lo spread contracting, with the HUI running red. **We have to note the extremely high gold/silver ratio now near 70.** While gold turned in both a higher hi and lo, silver could not answer. Short-term the table sends us a confused and more mixed up message than we like, but long-time readers know we view a GSR over 70 as an opportunity – more about that below.

Longer term we still see nothing which undermines the secular bull market thesis for gold metal, so let's drill down deeper into some of the signals and see what they might be saying.

This Week's Radar Screen

The Got Gold Report – the full report – is published biweekly. Between reports we communicate more regularly on the GGR web log, so it pays to stop by once in a while to catch the latest offerings.

The purpose of the **Radar Screen** is to briefly summarize our positioning for the gold and silver markets, and also to highlight a few of the dozens of indicators, ratios and graphs we keep in constant touch with at Got Gold Report. Long-time readers know we update most of the Got Gold Report linked charts each week, even the weekends when we don't publish the full report.

For a little while longer, readers need only pull up the last full report (even this one) and click on the chart links on "off weeks" to see any updated comments. Changes are almost always completed by 6:00 pm EDT on Sunday evening (except when Monday is a holiday) and occasionally during the week itself as events unfold. The chart links are always at or near the bottom of the reports.

Pretty soon now, however, all of the chart links will have to change as we have transitioned to our new permanent web home, which we are proud to say is up, functioning and gaining lots of new readership at www.GotGoldReport.com.

Like a Bird Dog on Point

Back to this week's **Radar Screen**: On Thursday, May 20, our stops were tripped and we hauled to the sidelines on gold. The trade was double digit percentage profitable (12+%) but less than we had hoped for – this time.

Gold

We plan to stay opportunistic for gold, waiting like patient Vultures for a juicy opportunity to redeploy our short-term trading ammo, glad that we hold long-term physical metal in our arsenal. We will have more about our positioning in the linked charts below and likely on the web log later this coming week. As we like to say, we are like a bird dog on point waiting for a re-entry sign.

Moving along, here's this week's short-term trading chart for gold:

Gold bounced at the very top of the zone we thought might be former resistance morphing into current support, but it has so far not managed to get into our "wheelhouse" (the purple box target). Demand has just been too strong, even in U.S. dollar terms. As strong as it has been in greenbacks, it has been even stronger in terms of Euros.

We will continue to tentatively mark the high $1,150s as potential support for gold with resistance now near $1,250 – until proven otherwise on both counts.

Our preferred area of reentry remains well below the current trading, but with the gold/silver ratio ballooning up to near 70 this week, we are not yet willing to raise our short-term trading entry targets.

Silver

Silver is a little different story as far as we are concerned. COT action (see silver COT data below) does not suggest that the Big Sellers (BS) have been aggressive on the short side of the second most popular precious metal. Despite some modest negative money flow from the largest silver ETF, we sense that demand for physical silver in bar form has ramped up considerably over the past two weeks. We are privy to rumblings in the rumor mill of plans by “major players” to accumulate substantial amounts of the white metal – most likely through the COMEX in New York, but probably also in the London physical camp.

This is not the first time such rumors have circulated. We heard similar stories in April and again in May. It is not the silver accumulation story that we are interested in so much as its longevity. Rumors that don’t die are usually not just rumors.

Please see the linked charts below for more information on silver this week.

As usual, much of this week’s technical and market commentary is contained in comments inserted in the actual linked charts below, and we will be adding additional “intel” to the “blog” often going forward, so, on to other business, beginning with this week’s COT report.

Gold COT

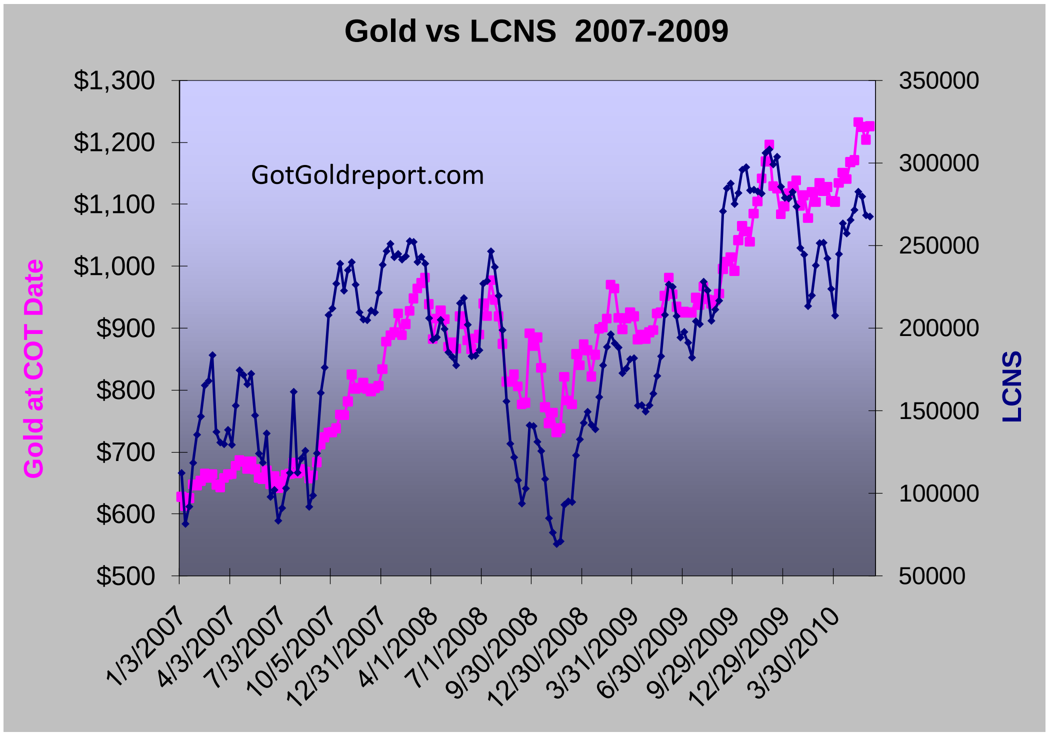
The **Commodities Futures Trading Commission (CFTC)** issued its weekly **commitments of traders (COT)** Friday, June 4. The report is for the close of trading as of Tuesday, June 1.

GotGoldReport.com is focused on the changes in positioning of the largest futures traders in that report – the traders the CFTC classes as “commercial,” including the bullion banks, large dealers and swap dealers combined. We refer to those commercial traders as “LCs” for “Large Commercials.”

As gold ADDED $21.59 or 1.8% to $1,225.62 COT reporting Tues/Tues, COMEX commercial traders ACTUALLY REDUCED their combined collective net short positioning (LCNS) by a small 756 contracts or 0.3% from 268,379 to a still high 267,623 contracts net short as the open interest plunged by 37,410 contracts from a very high, near record 591,360 to 553,950 contracts open.

So, as the number of open contracts was dropping largely and quickly, the LC’s were not really the ones doing the dropping, so to speak. Nevertheless, when we see a decrease in the LCNS on a substantial increase for the price of the metal, we don’t normally view that as a bearish signal. Had we seen an increase in the LCNS with the increase in the price of gold, it would have “seemed” normal. What we got instead was the opposite – a little.

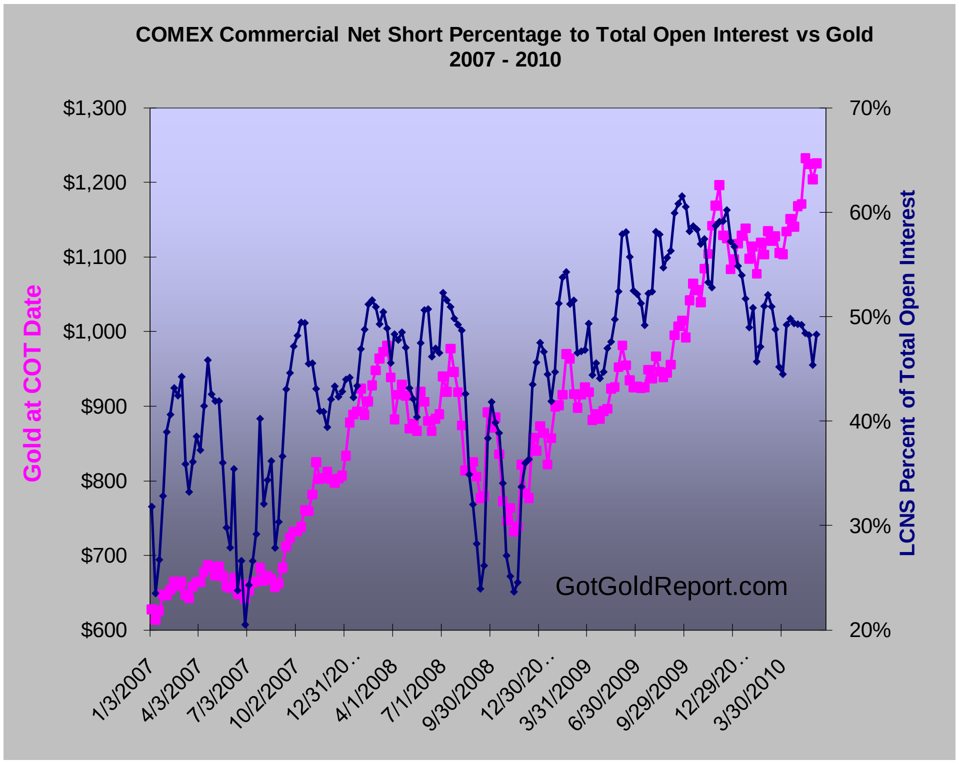
Here's the nominal LCNS graph for gold futures (Graph1):



Since Tuesday, gold met with dogged resistance in the upper $1,220s, but a very determined sell-down attempt on Friday, June 4, during the post non-farm payroll disappointment rush to liquidity – one which drove gold below $1,200 briefly, was met with equally determined bidding. The sell-raid in the New York futures arena was reversed on high volume, turning the sellers into buyers for the rest of the skirmish. Gold actually closed at $1,219.83, well above the Friday open near $1,207 despite briefly trading to $1,197.15 thanks to the short covering.

Remember that the LC's net short positioning barely changed even though the open interest plunged. When compared to all contracts open, the relative commercial net short positioning (LCNS:TO - the most important graph we track) therefore rose sharply from 45.4% to 48.3% of all COMEX contracts open.

Here's the LCNS:TO graph for gold (Graph 2):



In last week's COT Flash report (see the GGR web log for a copy), we said: *"Our antennae are up, we are on the sidelines with our short-term bullets and we are anxious. Anxious not because of our long-term physical holdings, those give us comfort. We are anxious because we sense something extraordinary is afoot, something potentially historic … and while we do not want to miss out on a potential major move, our instinct is to be cautious when our indicators perform in unusual ways."*

Well, since last week's report gold is $21 higher, the LCNS is a little lower, but the open interest had dropped considerably. As of Thursday the open interest had fallen a bit more to around 548,000 contracts, meaning there is more bull-side "horsepower" potentially than there was a week ago. The flip side of that gold coin is that it also means some of the buy-side has pulled in their bets.

We don't like being on the sidelines with our short-term ammo on gold, but since we believe gold is in a long-term secular bull market and more likely to surprise to the upside than the opposite, we have but three possible positions. Long, leveraged long or flat – never short in a bull market (except to hedge). Thus, our current stance of waiting patiently for opportunity with gold for our short-term ammunition.

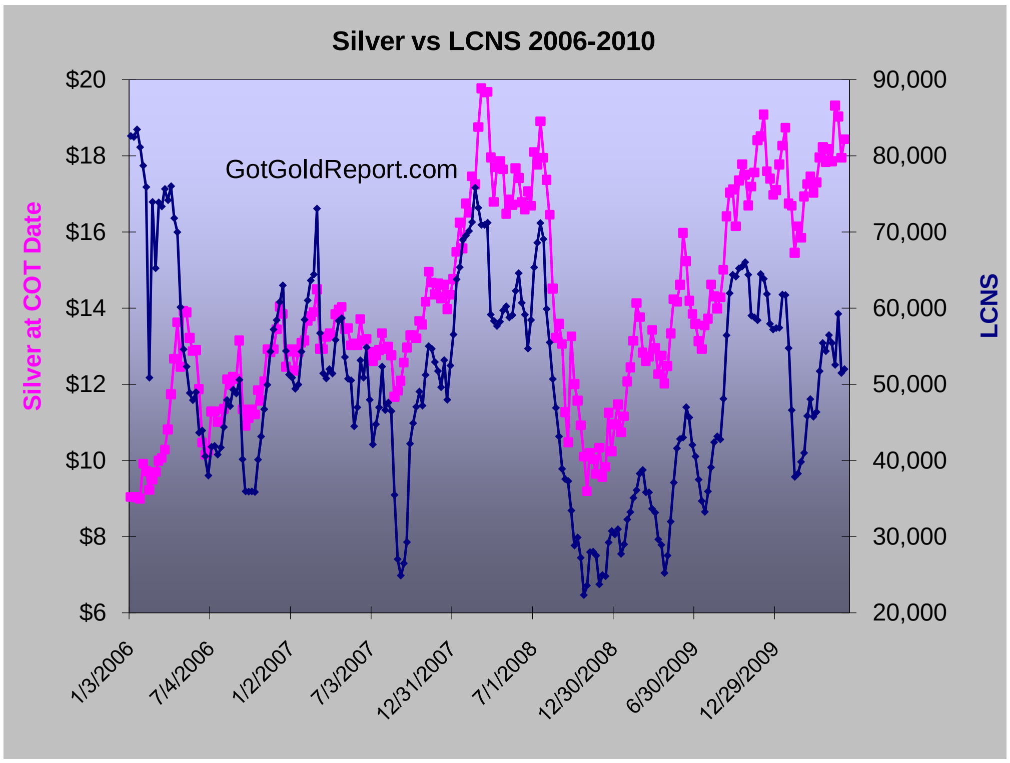
If gold bears were hoping to see the LCs aggressively on the short side in New York futures, they will have to wait at least until next week's COT report, but we kind of doubt they will see what they want then either. We'll see.

SILVER COT

As silver added $0.49 or 2.7% from $17.95 to $18.44 on the cash market COT reporting Tues/Tues, COMEX commercial traders added a smallish 506 contracts to their collective net short positioning (about 1%) from 51,449 to 51,955 contracts net short. COMEX silver futures open interest increased by a larger 2,248 contracts from 120,120 to 122,368 contracts open.

So, as silver was moving a little higher, the silver LCs were not really all that aggressively selling into it as of Tuesday. If they had been, we would have seen the LCNS increasing at least as much as the increase in the open interest.

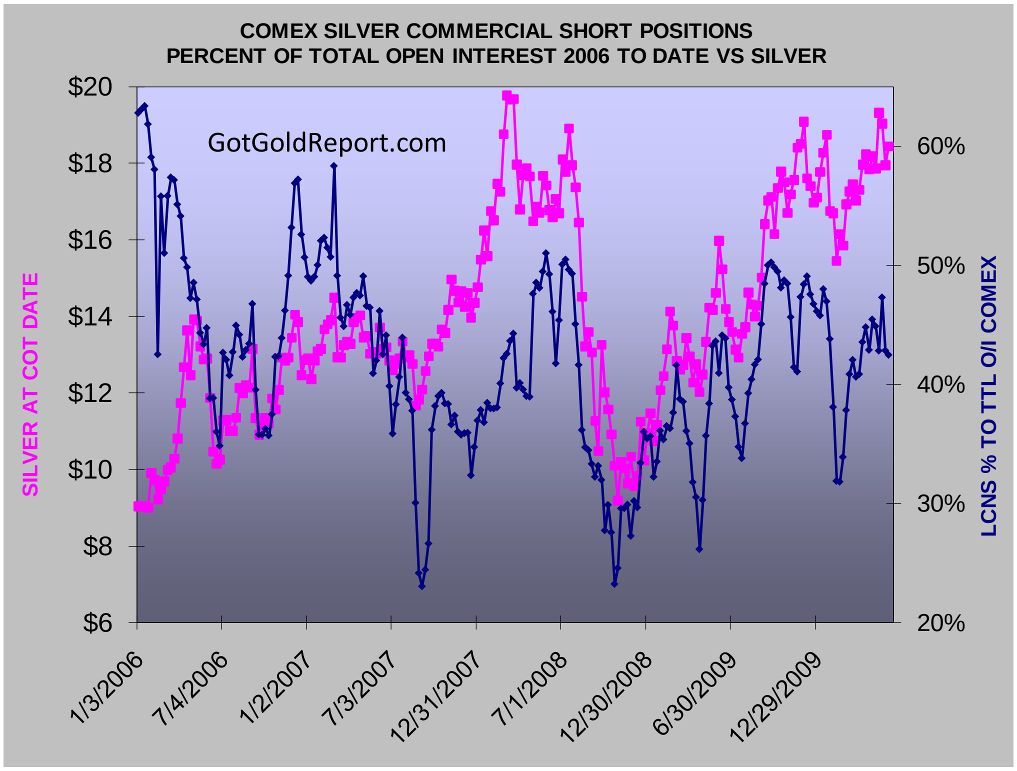
Here's the nominal LCNS graph for silver futures (Graph 3):



As we do with gold, we compare the nominal silver LCNS to the total open interest. That gives us a better idea of the relative positioning of the largest hedgers and short sellers (we sometimes call them the "Big Sellers" or just "BS") on the COMEX.

When compared to all contracts open, the relative commercial net short positioning (LCNS:TO) for silver barely changed, moving from 42.9% to 42.5% of all COMEX contracts open.

Here's the LCNS:TO graph for silver (Graph 4):



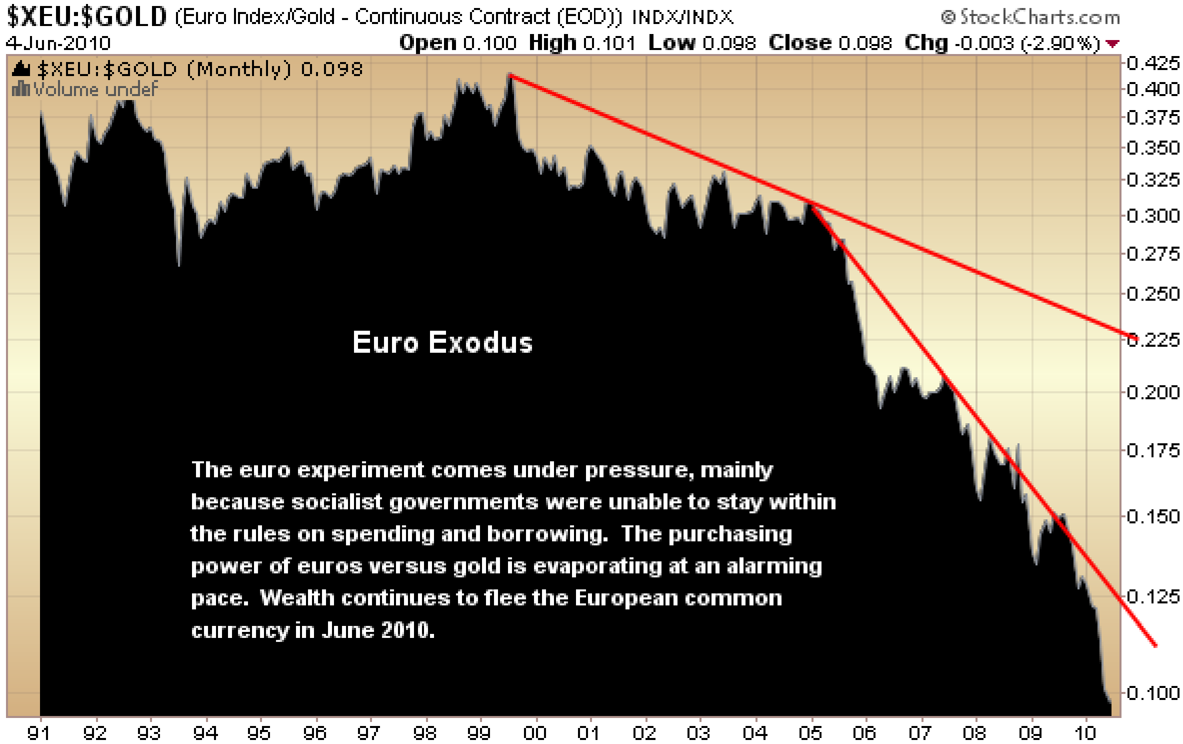
Scorecard: Gold +0.4% and the gold LCNS -0.3%. Silver +1.8% and the silver LCNS +1%.

As we said last week in the **COT Flash** report, we have the strange situation where the Big Sellers are not, that's NOT acting in a way that shows they are confident in lower gold and silver prices even though gold is not very far from a new all time high.

We also said then: "*Our most important indicators are flashing more bullish than bearish signals, yet our instinct is whispering caution."*

Well, with the gold/silver ratio now near 70, we know that is either bearish for gold or bullish for silver on a relative basis. Since we cannot know for sure which in advance, and even though we cannot point to aggressive "hedging" by the BS of gold and silver and that tends to increase our confidence, let's see what a few of the other indicators are saying before we try to decide our own positioning. (We use the term "hedging" loosely because the CFTC does.)

Euro Exodus Accelerates



The graph above measures the buying power of Euros in terms of gold metal. Amazingly it now takes about 3.3 times as many Euros to buy an ounce of gold as it did in 2005. It takes about 4.2 times as many to buy a gold krugerrand than it did in August of 1999.

Another way to say that is that since 1999 the Euro has lost about 75% of its "value" in terms of gold metal. Had our German or French friends had the foresight to put their wealth in gold bars or coins in the summer of 1999, they would not have experienced any loss of purchasing power relative to gold, but if they didn't they certainly have lost ground. A lot of ground thanks to the gross mismanagement of the public trust by European political "leaders."

Wealth was fleeing the euro at an alarming clip over the past few weeks. The euro's buying power relative to gold has gone nearly vertical to the downside. **Although we cannot point to a specific reason why it should, we have to suspect that the Euro may be getting closer to a technical bounce very shortly. The short-Euro trade is likely overdue for a short-killing bounce.**

Looking just at the euro index in the chart just below, consider that at some point the various governments just might step in to quell the perceived riot in "Currencyland."

The exodus from the Euro has become disorderly and is probably dangerous both from a bullish or bearish point of view. If short, we would consider extremely tight stops.

Note for reference the last time the euro index was this oversold in November of 2008 (see the RSI). **Would it be all that surprising to see official intervention into the Forex markets in June?**

Although we sincerely doubt the longer term viability of the European common currency, we can easily see it going through a number of violent, highly volatile gyrations before it is restructured, re-cast or rescinded in the months or years ahead. We won't be placing a bet in this market directly in other words. Not unless we see obvious and determined official intervention early and just jump on for a quickie "Vegas money" trade or two in the option market where risk is well-defined and finite.

Meanwhile, confusion reigns in Euroville and gold priced in Euros cut another new all time high this week, setting a new weekly close high of €1,017.85 according to Kitco.com.

It pays to remember that when governments decide to intervene in the markets they sometimes wait for the market to stabilize and even reverse a little before throwing their weight into the battle. Contrary to most of government, the people charged with Forex trading are often smart enough to wait for a tailwind.

So Far it's a Buyer's Strike More Than Panic in the Little Guys

We keep tabs on a number of junior miners and explorers (using various technical charts), like the ones which reside in the Canadian exchanges. We use the **S & P TSX Venture index (CDNX)** and the **Market Vectors Junior Gold Miners index (GDXJ)** as proxies for tracking them.

The "little guys" are usually a lot more risky, a lot less liquid and are much more volatile than their bigger cousins on, say the HUI or the XAU indexes.

First let's look at the GDXJ for comparison. Notice please in the chart just below, that at least so far, the small miners in the GDXJ have not been all that mistreated by the market, even though the S & P 500 has apparently broken down as of this past week.

We can guess that the reason the GDXJ has not yet plunged down to test its February lows is because gold itself has remained strong. Having said that, two weeks ago the CDNX did test and move below its February lows as shown in the short-term chart below. We think it is interesting (if perhaps not necessarily predictive) that the sell-down of the CDNX in late

May and early June has been on considerably lower volume, suggesting a lack of buying pressure more than a rush to sell – so far.

As we have said many times in the past, it doesn't take high volume to move a market, but the lack of higher volume does put an asterisk by the move. It takes buying and lots of it to move a market higher, but all it takes is a lack of buying pressure for that same market to fall.

Having said all that, we do not think it is too soon to be placing ridiculously cheap "stink bids" on one's favorite junior miners, explorers and developers. The emphasis in that sentence is on the words “ridiculously cheap” and don’t be too surprised if they get hit if we see another panic period just ahead.

If, and it’s a big “if,” the world somewhow manages to calm down sometime in the next couple weeks, we could see significant bounces in the little guys based merely on the return of some bidders to the game. We think that the Big Markets will have to calm down as well before we can expect much “fun” from the little guys, however.

It is interesting to compare the little guys directly with the bigger companies, which is what this next graph attempts to do.

Despite all the dire news and scary Big Market action over the past two weeks, we have to note that the smaller miners and explorers have been more or less keeping pace with their bigger cousins since about the middle of May. Is that surprising?

If we are looking hard for positive signs, this is one. Why? Consider how sorry the little guys performed from the middle of April to the middle of May in the chart just above. People were throwing out the little guys as fear ramped up and equity markets swooned.

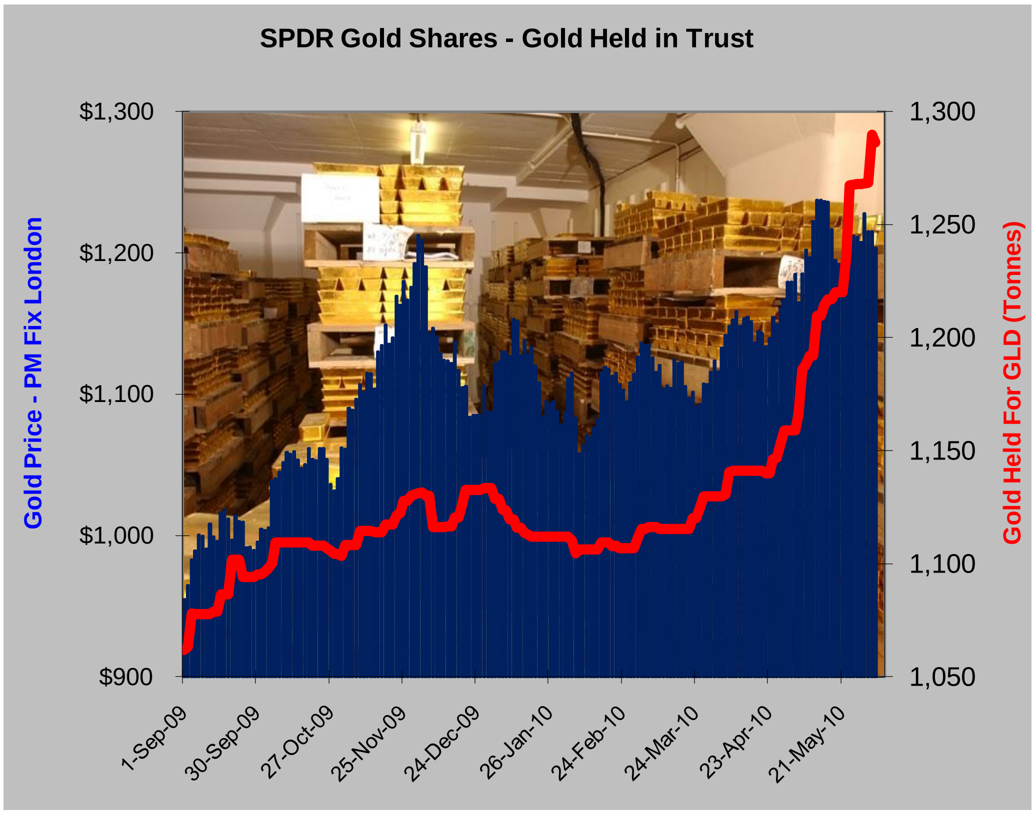
That doesn’t necessarily mean that the little guys won’t go back to underperforming. They can and they might, but it does mean that over about the past month they haven’t been all that much weaker than the big boys.

We could just be making a stink bid silk purse out of a chart ratio sow’s ear with this ratio, but in a market with few bullish signs we dare to “see” this one.

GLD Metal Holdings

SPDR Gold Shares (NYSE:GLD) reported adding another 18.43 tonnes net this week to show 1,286.36 tonnes of allocated, LBMA-approved, so called "good-delivery" gold bars held for investors by a custodian in London on behalf the most popular gold trading vehicle in the world.

GLD hit another record of 1,289.84 tonnes Thursday (June 3) before the U.S. jobs dissappointment and Hungary news-inspired 300-plus point big market over-reaction sell-down Friday. GLD reported a 3.48-tonne reduction in Friday's rush out of assets and into liquidity by the way.



Source for data SPDR Gold Trust.

As of Friday's close the metal held in trust for GLD was worth about $49.8 billion. Since February the trust has added a little over 179 tonnes of new gold. That is about 26 tonnes more than the reported amount that the IMF is still planning to sell (153 tonnes left to sell if it hasn't already sold some more).

All five of the gold ETFs sponsored by the **World Gold Council** held a collective 1,469.21 tonnes of gold metal (about 47.2 million ounces) which is more than just a handful of countries and central banks. That's up 18.25 tonnes from last week.

GLD adds metal and increases the number of shares in the trading float in reponse to periods of aggressive buying pressure - when there is more positive liquidity than negative liquidity. The reverse is also true.

Clearly there has been considerably more buying pressure than selling pressure for GLD since February. A lot more.

Our friends at **U S Global Investors** headed up by savvy money man Frank Holmes sent out the chart below to subscribers. It shows the combined gold ETF holdings based on data compiled by Deutsche Bank.

(Chart courtesy of USGI, San Antonio, TX)

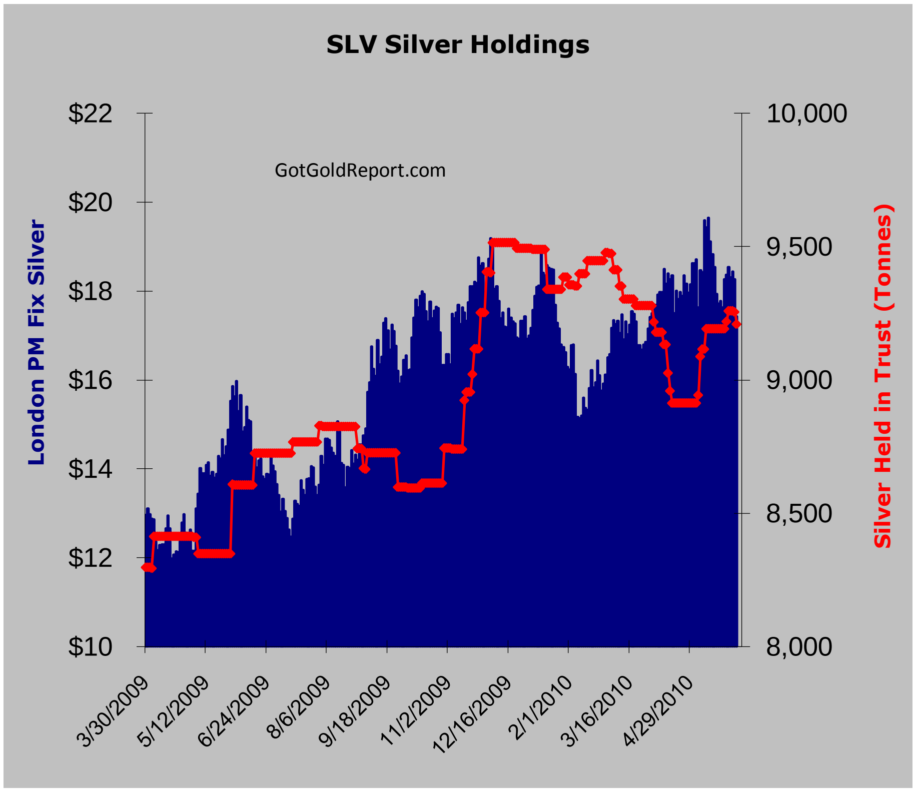
We'll just add one observation. GLD remains the largest single gold ETF by far, but the percentage amount of physcial gold being held by all the other gold ETFs is on the rise.

iShares COMEX Gold Trust (IAU), reported only a maintenance 0.03-tonne reduction to its metal holdings this week, showing 84.19 tonnes of gold held in COMEX warehouses.

All five of the gold ETFs sponsored by the **World Gold Council** (WGC) collectively recorded an 18.25 tonne increase of gold metal, to a combined 1,469.21 tonnes (47,236,436 ounces) worth about $56.9 billion USD as of Friday's close.

SLV Metal Holdings

Metal holdings for BlackRock's **iShares Silver Trust (NYSE:SLV)** declined by a smallish 49.59 tonnes to a reported 9,208.83 tonnes of average 1,000-ounce allocated silver bar inventory held by a custodian in London for the week. As of the Friday close the largest ETF silver hoard in the world (held by SLV) was worth $5.3 billion or about 10.7% of the value of the largest gold ETF.



Source for data, iShares Silver Trust.

Like GLD, the authorized market participants for SLV add silver (and increase the number of shares in the trading float) in response to more buying pressure than selling pressure and vice versa.

At the same time we see continued material positive money flow into the largest gold ETF, we cannot say the same thing for the largest silver ETF this week. Positive money flow and its opposite have been kind of poor indicators of late, however, especially for silver. What we can observe is that despite silver selling off harshly, we cannot point to any exodus from the largest silver ETF, merely statistical noise changes just lately.

That is all we have time and space for in this week's offering, so on to the close…

Bottom Line: We apologize in advance that this summation will be longer than usual.

This week we see positive money flow into gold ETFs, only marginal negative money flow from the largest silver ETF. We note more favorable than unfavorable "action" in gold and silver COT report data. We see the larger miners holding up better than the rest of the trembling Big Markets and we think we see the smaller, less liquid and more risky juniors keeping pace with their larger cousins.

The U.S. dollar is grossly overbought, the Euro has been horribly oversold in a panicky fashion. We think the chances for official intervention in Forex markets is now quite high.

The gold/silver ratio is nearing a high-extreme which is either bullish for silver or bearish for gold and may be both, but perhaps not immediately. A GSR over 70 is

never a good thing. It means there is great stress in the capital markets. It also reminds us that the Big Sellers of silver, using their access to oversized position limit exemptions, can be counted on to take advantage of most every selling opportunity. Of course that helps put a bid under silver sooner or later.

We saw nothing out of line or unusual in the either the CFTC Bank Participation COT report nor in this week's disaggregated gold and silver COT reports, except we did note that the U.S. banks have increased their net short positioning for gold by 25,051 contracts since May 4, while at the same time reducing their silver net short positioning by 4,337 contracts for the month.

With the VXO volatility index between 30 and 40, the price of option "insurance" is more than twice what it was in April – meaning that fear has become dominant in most markets. (Over 40 is just plain scary.)

The TED Spread has risen again to over 40 bps, which tells us bank-to-bank trust is deteriorating, but it is still well under where it was in 2007 and 2008 when the "wheels last came off."

With all of that (and more) the HUI still managed to turn in a higher high and low for the week and gold refused to get sold off in the melee Friday.

Finally, we note that both gold and silver finished the week in modest backwardation, suggesting heavy demand for immediate delivery metal and no willingness to wait for it or to trust that a counterparty will deliver in the future.

We still sense that the world is very near another tipping point. We still wish to remain cautious, careful and thoughtful, but right or wrong, win or lose, with caution flags still flying, we find ourselves anxious to redeploy our short-term trading ammo opportunistically and plan to do just that this coming week. That's if the Trading Gods will give us significant to strong dips to work with and then reveal the kind of bidding we expect to see in them then.

Our emphasis is likely to be in the silver market given the too high GSR, but we are opportunistic, remember.

Longer-term the world faces too many challenges and is going about things in ways that should continue to be supportive for precious metals – we think.

We will begin this week on the sidelines for our short-term gold and silver positioning, but we kind of doubt we will end the week that way. We'll see.

Our valued readers will find much more technical and fundamental commentary in the linked charts just below.

Got Gold Report Charts

- 1-year daily gold
- 2-year weekly gold
- 1-year daily silver
- 2-year weekly silver
- 1-year daily HUI
- 3-year weekly HUI

- 1-year daily HUI:gold ratio
- 2-year weekly HUI:gold ratio
- 2-year weekly U.S. dollar index
- 3-year weekly CDNX index
- 2-year weekly CDNX:HUI ratio
- 2-year weekly CDNX:gold ratio
- 6-month gold:silver ratio

Due to length of this report, and because of a trip report we plan for later this week, we have elected to move the **Vulture Bargain Hunter** section to a separate report this one time. Look for a special report on **Timberline Resources (AMEX:TLR; TSX:TBR.V)** later on this week on the web log, possibly in multiple parts.

Vulture Comment

In a direct example of how parasitic governments don't "get it," Australia under Kevin Rudd proposed an idiotic 40% income tax on companies working down under. That wasn't all that long ago – a matter of weeks. This past week Xstrata PLC said that due to the new tax they are forced to can projects that would have represented about $6 billion in direct spending by that mining behemoth. (And that is just one company.)

When will politicians learn that confiscatory tax rates have very bad consequences?

It's a rhetorical question.

That's it from Houston this week. Until next time, thanks for honoring us with your time, good luck, good trading and as always, MIND YOUR STOPS. Got Gold?

Disclosure: The above contains opinion and commentary of the author. Each person should study the issues carefully and, as always, make their own informed decisions. Disclosure: The author and/or his family currently holds a long position in SPDR Gold Shares, net long iShares Silver Trust, long the following "Vulture Bargain Hunter Stocks" mentioned in this report or within the last year: Timberline Resources (TLR), Paragon Minerals (PGR.V), Forum Uranium (FDC.V), Odyssey Resources (ODX.V), Terraco Gold (TEN.V), Hathor Uranium (HAT.V), Gold Port Resources (GPO.V), Bravo Venture (BVG.V), Millrock Resources (MRO.V), Atna Resources (ATN.T), Riverstone Resources (RVS.V), Constantine Metal Resources (CEM.V), Canadian Shield Resources (EXP.V), Rye Patch Minerals (RPM.V) and currently holds various other long and short positions in mining and exploration companies. The author receives no compensation from any company mentioned in this report with the following exceptions: Canadian Shield is a sponsor of www.gotgoldreport.com. To contact Gene use LLCCMAN (at) AOL (dotcom).

Bio Below –

A land developer, professional numismatist, self-taught bullion trader and investor since 1980, Gene Arensberg analyzes technical and fundamental developments in the precious metals markets. In 2000 Gene started sharing his own market research with fellow traders and fund managers. Those email reports evolved into his popular Got Gold Report, a biweekly look at important indicators for gold and silver published on the web. Gene's more in-depth market reports, insights and trading ideas are available at www.GotGoldReport.com.

Potential VBH candidates: HAT.V, RVS.V, BVG.V, EXP.V, TLR